June 03, 2022

Internal Revenue Service
Attn: CC:PA:LPD:PR (Notice 2022-21)
Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Re: Recommendations for the 2022-2023 Priority Guidance Plan (Notice 2022-21)

Dear Sir/Madam:

eShares, Inc. d/b/a Carta, Inc. (Carta) is pleased to offer our suggestions regarding the 2022-2023 Priority Guidance Plan for the Department of the Treasury ("Treasury") and the Internal Revenue Service (IRS). Carta is a financial technology company that helps issuers, investors, and employees manage and value equity ownership. We do this by supporting the capitalization table for private companies, as well as providing portfolio management and reporting tools for thousands of investors and employees, and valuation and fund administration services to venture capital firms. Today, Carta has over 1,500 employees across the United States and abroad. Together we support over 1,800,000 stakeholders at more than 28,000 companies who manage over $2.5 trillion in equity value across Carta's platform.

Carta encourages Treasury and the IRS to continue prioritizing tax simplification by streamlining the filing process and reducing administrative burdens for businesses and their owners. Specifically, we urge you to consider the following recommendations as you prepare the priority guidance list:

1. Provide the ability to electronically sign and e-file section 83(b)[1] elections.

   A section 83(b) election[2] enables founders and employees with equity to accelerate a portion of their tax liability on equity ownership to the date of acquiring the shares rather than a later date when the shares vest. Making a timely election can have a substantial impact on tax liability and planning for new business owners and employee-owners. To file a section 83(b) election, within 30 days of accepting a stock grant or early exercising, equity owners must print two copies of the election, physically sign them with a wet ink signature, and send via certified mail, along with a cover letter and self-addressed return envelope to the IRS. The taxpayer then waits for the IRS to stamp and return a copy. The process is outdated, inefficient, and burdens already-strained IRS resources. It also imposes an onerous process on filers and often leaves them uncertain of their election filing status.

[1] All references to "section" are to the Internal Revenue Code of 1986, as amended, and all references to "Reg. §", "Prop. Reg. §", and "regulations" are to U.S. Treasury regulations promulgated thereunder, unless otherwise specified.
[2] See Carta article, "Fixing 83(b) elections," March 11, 2021.

The IRS has granted[3] temporary pandemic-related relief that allows the section 83(b) election to be signed electronically, but taxpayers are still required to physically mail in a paper submission. This limited signature relief expires on October 31, 2023. We recommend[4] that Treasury and the IRS permanently allow section 83(b) elections to be electronically signed and e-filed.

2. Extend the time window to qualify for incentive stock option (ISO) tax treatment, after separating from a company, from 90 days to the natural life of the stock option thereby making it easier for companies to extend the post-termination exercise (PTE) period beyond the typical 90 days.[5]

   The PTE window is the period of time in which employees are eligible to exercise their vested shares after leaving the company, whether that departure is voluntary or involuntary. In most cases, the post-termination exercise period is 90 days. This means, if an employee leaves a company, they have 90 days to exercise and pay for their vested stock options. If an employee cannot afford to exercise their options or plan for the tax impact of the exercise, including setting aside funds to address the resulting tax liability, or are unable to sell them on a secondary market (some companies restrict this), they may be forced to sacrifice their hard-earned equity.

   Workers who earned their equity options should be given a fair opportunity to keep them. Currently, the Internal Revenue Code ("Code") incentivizes employers to sunset options 90 days after an employee is terminated or leaves the company because the IRS disqualifies ISO treatment[6] three months after employment ends. For an employee to have the flexibility to exercise their stock options beyond 90 days, a company needs to convert each departing employee's ISO grant to a non-qualified stock option (NSO) grant, which is administratively burdensome for the employer and requires the employee to pay taxes both when they buy their shares and when they sell them.

   Employees should have more time and flexibility to decide whether they will realize the stock options they worked hard to earn. Extending the ISO treatment following an employee's separation from the company, beyond the current 90 days to the natural life of the option, would remove a friction point and make it easier for companies to extend their PTE period. This extension would help employee-owners realize the value of the equity they earned.

3. Provide guidance concerning virtual currency.

   Virtual currency transactions continue to add new elements of complexity to taxpayer compliance. While the IRS has issued audit and penalty warnings[7] to remind taxpayers to

[3] See IRS website, "Details on using e-signatures for certain forms," updated December 8, 2021.
[4] See coalition comment letter, "Electronic Signature & Transmission Relief for Section 83(b) Elections," submitted March 9, 2021.
[5] See Carta article, "Why you only have 90 days to exercise your options when you leave a startup and why that's changing," October 25, 2019.
[6] Section 422.
[7] IRS IR-2018-71, "IRS reminds taxpayers to report virtual currency transactions," March 23, 2018.

report virtual currency transactions, individuals and businesses need additional authoritative guidance in order to properly understand tax treatment and comply with the rules.

Carta recommends that Treasury and the IRS issue additional guidance on virtual currency to offer certainty and clarity to taxpayers. We also recommend that the IRS incorporate its online frequently asked questions (FAQs) on virtual currency transactions[8] into proposed regulations, allow for public comment, and provide authoritative guidance to taxpayers in the form of final regulations. This process is consistent with the March 2019 Treasury policy statement[9] on its commitment to notice and comment rulemaking.

4. Provide guidance addressing amortization of research and experimental (R&E) expenditures.

   Section 13206 of Public Law 115-97, commonly referred to as the Tax Cuts and Jobs Act, amended section 174 of the Code, which resulted in significant changes to the amortization of R&E expenditures. This provision is an important tax planning element for many businesses, including start-ups and small businesses who rely on R&E to continue to grow and innovate. We recommend that Treasury and the IRS issue further guidance that includes detailed examples for relevant taxpayer fact patterns under section 174.

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We appreciate your consideration of our comments and welcome the opportunity to discuss these issues further. If you have any questions, please contact Anthony Cimino, Head of Policy and Regulatory Affairs at 202.734.9592 or Anthony.Cimino@Carta.com.

Sincerely,

Anthony Cimino
Head of Policy and Regulatory Affairs
Carta

[8] See IRS website, "Frequently Asked Questions on Virtual Currency Transactions."
[9] See Department of the Treasury release, "Policy Statement on the Tax Regulatory Process," March 5, 2019.